CubacAN EXPLORATION INC.

FIRST ANNUAL REPORT

CORPORATE HISTORY

The Company was incorporated on January 12, 1995 under the name of Endeavour Oil & Gas Ltd., pursuant to the provisions of the Business Corporations Act Alberta. The Company was listed for trading as a Junior Capital Pool (JCP) company on June 20, 1995.

On August 18, 1995, the Company completed its Major Transaction, and changed its name to Cubacan Exploration Inc. Cubacan commenced trading on October 18, 1995, under its new name and symbol (CCX) on the Alberta Stock Exchange.

ANNUAL MEETING

The Annual General Meeting for the shareholders of Cubacan Exploration Inc. will be held on June 5, 1996 at 3:30 p.m. at the 400 Club, 710 - 4 Avenue S.W., Calgary, Alberta T2P 0K3.

PRESIDENT'S MESSAGE

1995 was a pivotal year for Cubacan Exploration Inc., where we strategically positioned the Company to take advantage of the tremendous oil and gas potential in Cuba.

The Company started out in January, 1995, under the name of Endeavour Oil & Gas Ltd., and, in June, was listed for trading as a Junior Capital Pool (JCP) company. In mid-August, $850,000 of minor interests in approximately 490 various oil and gas properties in central Alberta were purchased. This acquisition was approved by the Company's shareholders as the Company's Major Transaction, thus setting the stage for entry into the international arena.

Associated with this transaction was a management change, which further directed the efforts of the Company towards oil and gas ventures in Cuba. Through its current management, Cubacan possesses tremendous international experience, with relationships established in Cuba as early as 1993.

On March 11, 1996, the Company announced a formal take-over bid for all of the issued shares of Solstice Natural Resource Corp., on the basis of one share of Cubacan for each share of Solstice. The offer expires April 1, 1996, and is conditional upon at least 90% but not less than $66^{2/3}$% of the Solstice shares being tendered.

Solstice's assets are a 100% interest in three Production Sharing Agreements with Cubapetroleo, the Cuban national oil company. These include onshore Blocks 16 and 17, and the Cristales field, comprising approximately 7000 km^2 (1.7 million acres) of land and representing 6.3% of the Country's land base. Solstice contracted a Calgary based seismic company to conduct a 600 km survey on the Blocks. Supervising crews and equipment have arrived in Cuba and the program has commenced. While results will be interpreted on an ongoing basis, final results will not be interpreted until this summer, at which time management will determine whether an exploratory well or wells should be drilled, or if further geophysical work will be required.

The Company recently concluded negotiations with a Calgary based brokerage firm to raise $2,100,000 through a prospectus offering of up to 7,000,000 units. Each unit consists of one common share and one-half of an A Warrant. Each A Warrant will entitle the holder until November 15, 1996 to purchase one common share and one B Warrant for $0.45 each, and a B Warrant will entitle the holder thereof to acquire one common share for $0.60 each until June 1, 1997. Proceeds will be utilized to complete the seismic program in Cuba commenced by Solstice. Such financing is conditional on the successful completion of the take-over bid.

The foundation is built, the relationships are solid, and I am excited and optimistic about our ability to compete and succeed as an exploration and development company in Cuba.

On behalf of the Board of Directors,

Allan J. Kent
President, Cubacan Exploration Inc.
March 19, 1996

FINANCIAL STATEMENTS
December 31, 1995

AUDITORS' REPORT

To the Shareholders of
Cubacan Exploration Inc.

We have audited the balance sheet of Cubacan Exploration Inc. as at December 31, 1995 and the statements of loss and deficit and change in financial position for the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and the results of its operations and changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
March 19, 1996

Doane Raymond.
Chartered Accountants

BALANCE SHEET

December 31, 1995

Assets	
Current	
Cash	$ 23,228
Accounts receivable	19,688
Due from related companies	102,456
	145,372
Properties and equipment (note 3)	800,980
	$946,352
Liabilities	
Current	
Accounts payable	$ 28,454
Current portion of long-term debt	120,000
	148,454
Long-term debt (note 4)	200,000
Provision for site restoration costs	848
	349,302
Shareholders' Equity	
Capital stock (note 5)	665,140
Deficit	(68,090)
	597,050
	$946,352

On behalf of the Board,

_______________ Director

_______________ Director

STATEMENT OF LOSS AND DEFICIT

For the period January 12 to December 31, 1995

Revenue	
Petroleum and natural gas	$ 118,293
Less royalties	(8,703)
	109,590
Interest income	6,928
	116,518
Expenses	
Operating	55,385
Depletion and depreciation	65,215
Professional fees	23,145
Interest on long-term debt	7,583
General and administrative	28,798
	180,126
Other	
Financing fees	(3,634)
Site restoration costs	(848)
	(4,482)
Net loss for the period and deficit end of period	$ (68,090)
Loss per share	$ (0.047)

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the period January 12 to December 31, 1995

Cash derived from (applied to)	
Operating	
Net loss for the period	$ (68,090)
Depletion and depreciation	65,215
Site restoration costs	848
	(2,027)
Change in non-cash operating working capital (note 6)	(93,690)
	(95,717)
Financing Activities	
Long-term bank financing	350,000
Repayment of long-term debt	(30,000)
Issuance of common shares for cash, net of issuance costs	415,140
Issuance of preferred shares for purchase of Canadian petroleum and natural gas properties and equipment	250,000
	985,140
Investment Activities	
Acquisition of Canadian petroleum and natural gas properties and equipment for cash	(616,195)
Acquisition of Canadian petroleum and natural gas properties and equipment for preferred shares	(250,000)
	(866,195)
Net increase in cash and cash end of period	$ 23,228

NOTES TO FINANCIAL STATEMENTS

December 31, 1995

1. Nature of operations

The Company is engaged primarily in the exploration for, development and production of petroleum and natural gas in Canada. The Company is also actively pursuing petroleum exploration and development opportunities in Cuba.

2. Summary of significant accounting policies

Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting for petroleum and natural gas properties and equipment as prescribed in the Guideline of Full Cost Accounting in the Oil and Gas Industry, which was issued by the Canadian Institute of Chartered Accountants.

All costs of exploring for and developing oil and gas reserves are capitalized, including land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment costs, related overhead costs, and capitalized interest related to unproven properties and major development projects. Such costs, net of proceeds from minor disposal of property, are accumulated, depleted and depreciated on a country-by-country basis using the unit-of-production method based on estimated gross proved reserves of oil and natural gas. Oil and natural gas production and reserves are converted into equivalent units based upon estimated relative energy content.

Costs of acquiring and evaluating unproved properties and major development projects are excluded from depletion and depreciation calculations until it is determined whether or not proved reserves are attributable to the properties, the major development projects are completed, or impairment occurs.

The capitalized costs less accumulated depletion, depreciation and deferred taxes in each cost centre are limited to an amount equal to the estimated net revenue from proved reserves (based on prices and costs at the balance sheet date) less estimated future general and administrative expenses, financing costs and taxes.

Gains or losses are recognized upon the sale or disposition of properties if either proved reserves of those properties are significant in relation to the Company's total reserves or the sale or disposition is that of a major development project.

Certain of the exploration and production activities of the Company are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

A provision for site restoration costs (net of expected recoveries) is made if the costs can be reasonably determined. This provision, which is based on current estimates, standards and technology, is accrued over the useful life of the resource properties using the unit-of-production method.

Earnings per share

The Company has utilized the weighted average method of calculating the earnings per share.

3. Properties and equipment

	Cost	Accumulated depletion and depreciation	Net book value
Canadian petroleum and natural gas properties and equipment	$866,195	$65,215	$800,980

On June 9, 1995 the Company entered into a non-arm's length Asset Acquisition Agreement with a related private corporation, controlled by the wife of a director, for the acquisition of certain oil and gas interests for the consideration of $850,000 payable by $600,000 cash and $250,000 in redeemable, convertible preferred shares subject to regulatory and shareholder approval. A portion of the cash payment was funded by way of a bank loan to the Company for $350,000.

On August 18, 1995 the shareholders approved this Major Transaction. The Company has received regulatory approval.

4. Long-term debt

Production loan, bearing interest at prime plus 1%,repayable in monthly principal payments of $10,000 and is secured by various petroleum and natural gas leases	$ 320,000
Less current portion	120,000
	$ 200,000

The principal payments due on the production loan over the next 3 years are as follows:

1996	$120,000
1997	120,000
1998	80,000
	$320,000

Subsequent to the year end, on February 1, 1996 the Company increased its production loan to $500,000, thereby increasing the monthly principal payments to $15,000.

5. Capital stock

The Company was incorporated on January 12, 1995 under the Business Corporations Act (Alberta) with the following capital:

Authorized

Unlimited number of preferred shares with no nominal or par value
Unlimited number of common shares

Issued

250,000 redeemable, retractable, convertible preferred shares	$ 250,000
2,802,500 common shares	485,500
	735,500
Less issuance costs	(70,360)
	$ 665,140

a) During the period

i) the Company issued 750,000 common shares for cash, by way of a private placement at a price of $0.10 for a total consideration of $75,000.

ii) the Company issued 2,000,000 common shares for cash, by way of a public offering, at a price of $0.20 for a total consideration of $400,000.

iii) the Company issued 52,500 common shares for cash, for options exercised at a price of $0.20 for a total consideration of $10,500.

iv) the Company issued 250,000 redeemable, retractable, convertible preferred shares at an ascribed value of $250,000. These preferred shares are non-voting and redeemable for $1 each at the option of the holder, bear a cumulative dividend of 12% per annum and are convertible at the option of the holder into common shares of the Company at $0.25 each until September 28, 1996, at $0.33 1/3 each in the second year, and at $0.50 each during the third year.

b) At December 31, 1995 there are 422,500 outstanding stock options for directors and the agent at a price of $0.20 expiring on various dates from December 20,1996 to January 18, 2000.

c) No dividends have been paid or declared on any of the preferred shares.

The effect of issuance of the outstanding stock options are anti-dilutive.

NOTES TO FINANCIAL STATEMENTS

December 31, 1995

6. Change in non-cash working capital

Due from related companies	$(102,456)
Accounts receivable	(19,688)
Accounts payable	28,454
	$ (93,690)

7. Related party transaction

During the period, the Company entered into a non-arm's length Asset Acquisition Agreement with a related company as outlined in note 3.

8. Name change

On August 18, 1995 the Company changed its name from Endeavour Oil & Gas Ltd. to Cubacan Exploration Inc. On October 18, 1995 regulatory approval was received.

9. Subsequent events

a) On March 11, 1996 the Company made a formal take-over bid for all the issued shares of Solstice Natural Resource Corp. ("Solstice"), a public company, on the basis of one share of the Company for each share of Solstice. The offer expires April 1, 1996 and is conditional upon at least 90% but not less than 66 2/3% of the Solstice shares being tendered.

Solstice's assets are a 100% interest in three Production Sharing Agreements with Cubapetroleo, the Cuban national oil company. These include onshore Blocks 16 and 17 and the Cristales field, comprising approximately 7,000 km^2 of land. Solstice is presently conducting a 600 km seismic program on Blocks 16 and 17.

Certain Solstice shareholders holding approximately 81.7% of the issued Solstice shares have agreed to tender their shares pursuant to the take-over bid and the directors have recommended acceptance of the offer.

b) On March 7, 1996, the Company concluded negotiations with a Calgary based brokerage firm to raise $2,100,000 through a prospectus offering of up to 7,000,000 units. Each unit consists of one common share and one-half of an A Warrant. Each A Warrant will entitle the holder until November 15, 1996 to purchase one common share and one B Warrant for $0.45 each and a B Warrant will entitle the holder thereof to acquire one common share for $0.60 each until June 1, 1997. Proceeds will be utilized to complete the seismic program in Cuba commenced by Solstice. Such financing is conditional on the successful completion of the take-over bid.

Directors

Allan J. Kent
President
Cubacan Exploration Inc.

R. Charles Allen
Executive Vice President
Cubacan Exploration Inc.

Francis P. Elliott
President
Peregrine Oil & Gas Ltd.

Richard J. Wojcik
Vice President - Engineering
Premier Pipelines Inc.

Gregory R. Harris
Barrister and Solicitor

Officers and Key Personnel

Allan J. Kent, B.Math
President

R. Charles Allen, L.L.B.
Executive Vice President

Carla D. Driedger
Corporate Secretary

Janice K. Berube, B.Sc.
Controller

Brent R. McClocklin
Assistant Controller

Guy C. Yuzicapi
Manager of Seismic Operations

Ray Ball
Senior Geophysicist

Elsa Caunedo Sibori
Manager of Administration

Bank

Canadian Western Bank
441 - 5 Avenue S.W.
Calgary, Alberta T2P 2V1

Registrar and Transfer Agent

The R-M Trust Company
600, 333 - 7 Avenue S.W.
Calgary, Alberta T2P 2Z1

Solicitors

Gregory R. Harris
Suite 500, 630 - 4 Avenue S.W.
Calgary, Alberta T2P 0J9

Auditors

Doane Raymond
Suite 1900, 500 - 4 Avenue S.W.
Calgary, Alberta T2P 2V6

Exchange Listing

The Alberta Stock Exchange
Stock Symbol: CCX

Executive Offices

Suite 500, 630 - 4 Avenue S.W.
Calgary, Alberta T2P 0J9
Phone: (403) 777-9220
Fax: (403) 777-9199

Cuba Office

Calle 21 No. 809
Apt. 201 Entre 2 Y 4
Vedado, La Habana, Cuba
Phone: 011 (537) 33-3291
Fax: 011 (537) 33-4168

Produced by Bev Dennis and Carla Driedger
Designed by Robin Albright, Two Birds, One Stone Design
Printed in Canada by Quebecor Printing

CubacAN EXPLORATION INC.

#500, 630 - 4th Avenue S.W.
Calgary, Alberta, Canada T2P 0J9
Telephone: (403) 777-9220
Facsimile: (403) 777-9199